



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Florence Unified School District No. 1

Year Ended June 30, 2003



STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 21, 2004

Governing Board
Florence Unified School District No. 1
P.O. Box 2850
Florence, AZ 85232

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the School Business Official in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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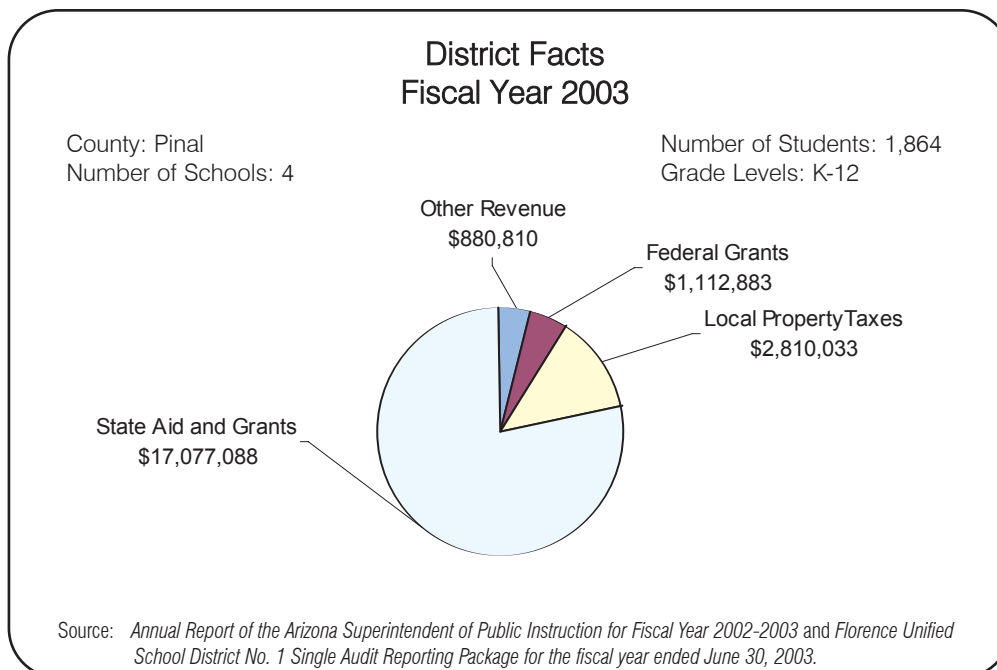
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INTRODUCTION

Florence Unified School District No. 1 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$21.8 million it received in fiscal year 2003 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. Specifically, the District did not issue invitations for bids or requests for proposals for half of its

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

purchases that exceeded the sealed bid threshold. In addition, the District did not always have the Governing Board determine in writing that the use of competitive sealed bidding was not practicable or advantageous to the District before issuing requests for proposals and did not always include all required information in its requests for proposals. Also, the District determined that the procurement of business consulting services was a sole source procurement, although reasonable alternative vendors existed for these services. Further, the District did not always obtain written price quotations for purchases that required them and neglected to obtain any oral price quotations when required.

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$32,899.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

- Issue invitations for bids or requests for proposals, as appropriate, for purchases of construction, materials, or services that individually or in the aggregate exceed \$32,899.
- Have the Governing Board determine in writing that the use of competitive sealed bids is either not practicable or advantageous to the District before making purchases using competitive sealed proposals.
- Include all information required by School District Procurement Rules in the requests for proposals.
- Only award a contract for a material, service, or construction item without competition when the Governing Board determines in writing that there is only one vendor that supplies the items or services. Retain this determination in the

procurement file. Sole source procurement should be avoided except when no reasonable alternative vendor exists.

- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,899. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,899.

The District should improve controls over student activities and auxiliary operations monies

The District holds student activities monies raised through students' efforts for safekeeping. Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them.

However, the Governing Board did not establish proper oversight. Specifically, the District did not prepare reports to reconcile cash receipts and sales to cash collected for student activities and auxiliary operations. In addition, the District did not always use prenumbered tickets and prepare ticket logs for athletic events, and some monies deposited in the Auxiliary Operations Fund were not raised in connection with bookstore or athletic activities.

Student activities and auxiliary operations monies were not adequately safeguarded and, therefore, were at risk for theft or misuse.

Further, the District did not always obtain student approval for student activities disbursements or retain supporting documentation. Also, one disbursement was not a valid use of student activities monies. Finally, the District did not always verify that individual student club account balances were sufficient before authorizing disbursements and, as a result, one club had a deficit cash balance.

Recommendations

The following policies and procedures can help the District improve controls over collecting and spending student activities and auxiliary operations monies:

- Prepare cash collection forms to document and reconcile cash collections and tickets or items sold. If it is not practical to sell tickets or count items before and after the sale, such as for club bake sales, club sponsors should prepare cash collection reports to document cash collected.

Sample student activities and auxiliary operations cash collection reports are on USFR pages X-H-21, X-G-17, and X-G-22.

- Document sales at athletic events by using prenumbered tickets or some other means and preparing ticket logs.
- Use the Auxiliary Operations Fund only to account for monies received in connection with bookstore operations, athletic activities, and miscellaneous district-related operations such as optional course fees.
- Require that each student club approves its disbursements, and documents approval in its meeting minutes.
- Verify that individual student club cash balances are sufficient before authorizing disbursements.
- Prepare and retain documentation such as purchase requisitions, purchase orders, receiving reports, and vendor invoices to support all student activities disbursements.

The District should strengthen controls over budget preparation and monitoring

The District's Governing Board is required to adopt an expenditure budget each year to inform parents and district taxpayers how it will spend the monies it receives. In addition, the expenditure budget should provide accurate information to the agencies from which the District receives funding. It is also the District's responsibility to spend monies in accordance with the approved expenditure budget.

However, the District did not accomplish these objectives. For example, the District budgeted expenditures for the Maintenance and Operation (M&O) and Unrestricted Capital Outlay Funds in excess of their respective budget limits. In addition, the District did not ensure that sufficient cash was available in cash-controlled funds

The District paid over \$82,000 in expenditures without ensuring sufficient cash was available.

before authorizing expenditures from those funds. As a result, four funds had deficit fund balances at year end. Also, the District encumbered amounts on its Advice of Encumbrance in excess of the unexpended budget balances for the M&O and Unrestricted Capital Outlay Funds.

Further, daily route miles used to prepare the District's expenditure budget were less than the actual daily route miles reported to ADE on its Transportation Route Report and student counts for grades 9 through 12 on the District's expenditure budget did not agree to ADE's Recalculated ADM State Aid Report-ADMS 46-1.

Recommendations

To help ensure that monies are properly budgeted and controlled, the District should:

- Review its expenditure budget to verify that total budgeted expenditures for the M&O and Unrestricted Capital Outlay Funds are within their respective limits, and make any necessary revisions.
- Ensure that cash is available in cash-controlled funds before authorizing expenditures from those funds.
- Verify that the amounts encumbered on the Advice of Encumbrance for the levy funds (M&O, Unrestricted Capital Outlay, Adjacent Ways and Soft Capital Allocation) do not exceed the unexpended budget balances for those funds.
- Obtain daily route miles from ADE's Transportation Route Report-TRAN 55-1 for the Expenditure Budget Work Sheet D.
- Obtain student counts from ADE's Recalculated ADM State Aid Report-ADMS 46-1 for the Expenditure Budget Work Sheets.

The District's controls over capital assets should be strengthened

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have accurate and complete lists of these assets and ensure that they are properly accounted for. However, the District did not reconcile capital acquisitions to capital expenditures at year end to help ensure the capital assets list is accurate and complete. In addition, the District disposed of 34 computers without obtaining proper authorization and did not maintain a list of capital asset disposals.

The District disposed of 34 computers without obtaining proper approval.

Recommendations

The following procedures can help the District improve control over its capital assets and ensure that its capital assets list is accurate and complete:

- Reconcile items added to the capital assets list during the fiscal year to capital expenditures for that year and make all necessary corrections.

The form on USFR page VI-E-13 may be used to document the reconciliation of capital asset additions to capital expenditures.

- Prepare written authorizations when disposing of assets and have the Governing Board or an authorized employee approve each disposal.
- Update the capital assets list when assets are disposed of or maintain a separate list of disposals and use it to update the capital assets list at fiscal year end.

The District's procedures for processing payroll need improvement

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately. However, the District did not have adequate controls over payroll processing. Specifically, the District did not always withhold state retirement from all eligible employees' pay. In addition, the District did not ensure that all payroll registers were reviewed, approved, and signed by the appropriate supervisor before it issued payroll warrants.

Recommendations

To help strengthen controls over payroll processing, the District should withhold state retirement from the salaries of all employees who work at least 20 weeks in a fiscal year and at least 20 hours a week. Additionally, the District should ensure that employees' timecards and the payroll registers are reviewed, approved, and signed by an appropriate supervisor.